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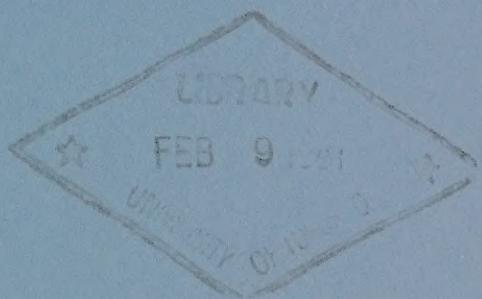
CANADA



NATIONAL ENERGY BOARD REASONS FOR DECISION

In the Matter of the Application under
Part IV of the National Energy Board Act

of



Trans Mountain Pipe Line Company Ltd.

December 1980

NATIONAL ENERGY BOARD
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Ce rapport est
publié séparément
dans les deux
langues officielles

NATIONAL ENERGY BOARD

REASONS FOR DECISION

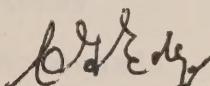
In the Matter of the Application under
Part IV of the National Energy Board Act

of

TRANS MOUNTAIN PIPE LINE COMPANY LTD.

DECEMBER 1980

The Board, having received and considered the transcripts of the evidence and argument presented at the hearing of this application and the exhibits filed thereat, together with the report of the Presiding Member, Mr. J.R. Hardie, made pursuant to subsection 14(1) of the Act, and on the basis of those transcripts and exhibits and that report, having satisfied itself with regard to all considerations that appear to it to be relevant, that the tolls recommended in that report are just and reasonable, hereby adopts that report as the statement of its findings and its decision on the application.



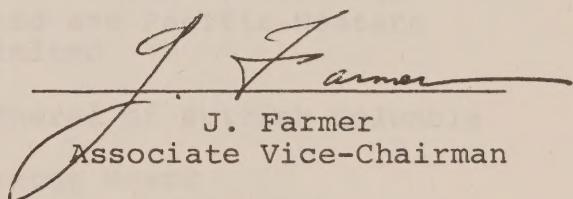
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Chairman



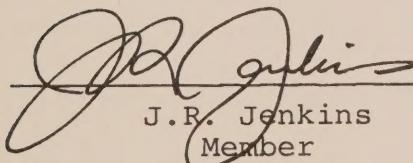
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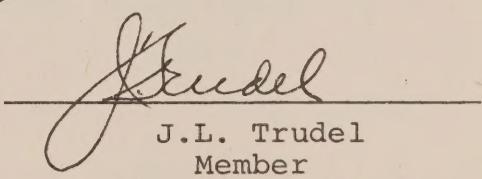
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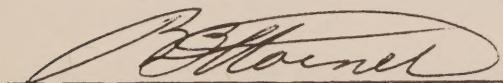
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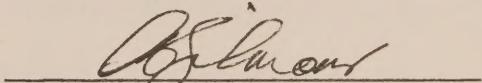
J.R. Jenkins
Member



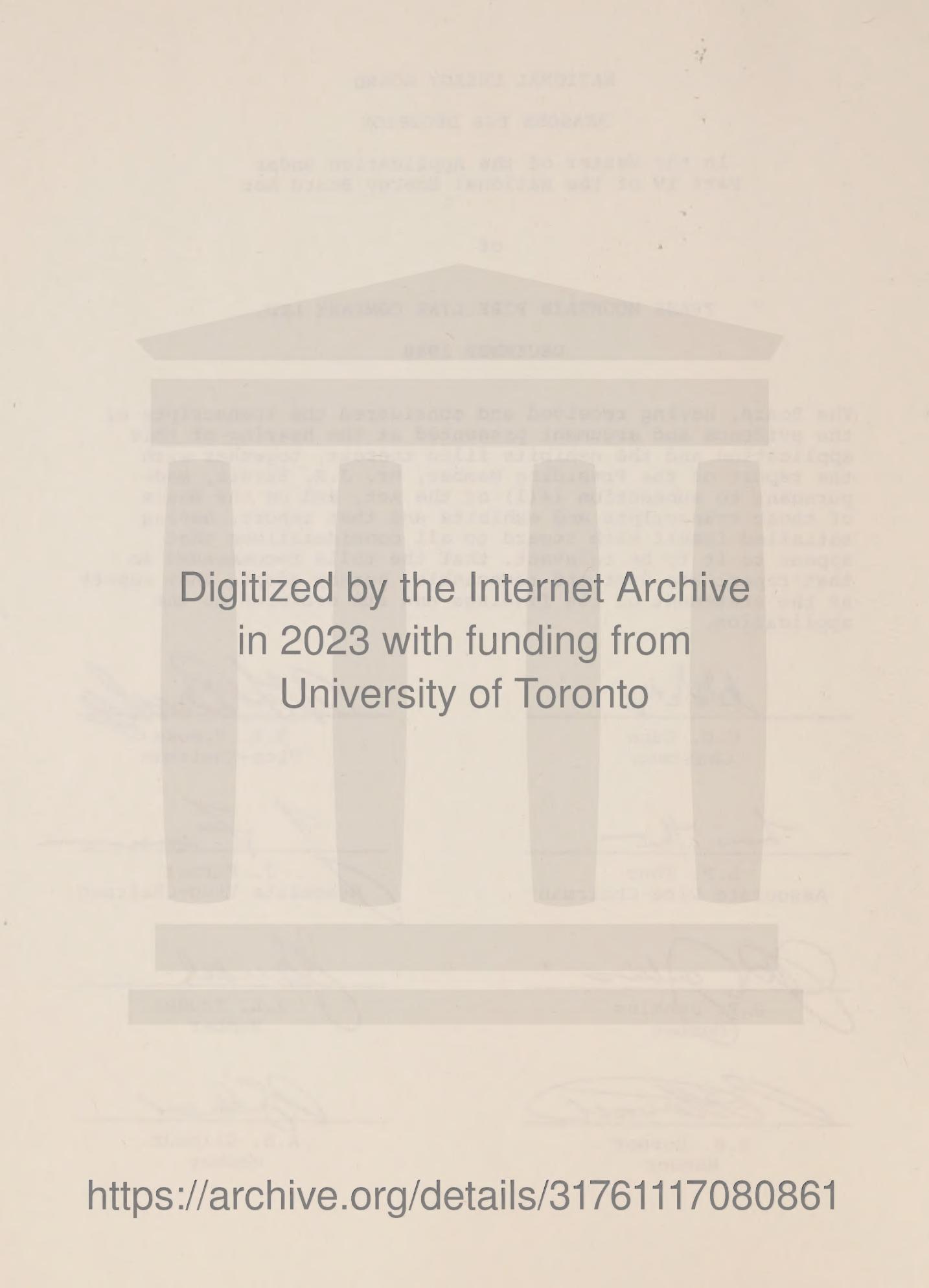
J.L. Trudel
Member



R.B. Horner
Member



A.B. Gilmour
Member



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(i)

National Energy Board

IN THE MATTER OF the National Energy Board
Act and the Regulations made thereunder, and

IN THE MATTER OF an application by Trans
Mountain Pipe Line Company Ltd. for certain
orders respecting tolls and tariffs pursuant
to Part IV of the National Energy Board Act,
filed with the Board under File No.

1762-T4-2.

HEARD at Ottawa, Ontario on 3, 4, 6 and 7 November 1980.

BEFORE: J.R. Hardie as Presiding Member duly appointed by
the Board for that purpose in
accordance with Section 14 of the
National Energy Board Act.

APPEARANCES:

C.D. O'Brien)	Trans Mountain Pipe Line Company Ltd.
H.M. Kay)	
D.E. Clarke)	Imperial Oil Limited
E.A. Abssy)	
E.B. McDougall		Trans-Northern Pipe Line Company
J.M. Murray		TransCanada PipeLines Limited
R.S. O'Brien)	Air Canada, Canadian Pacific Air
)	Lines Limited and Pacific Western
)	Airlines Limited
J.J.L. Hunter		Attorney General of British Columbia
P.G. Griffin		National Energy Board

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CHAPTER 1

THE APPLICATION

Trans Mountain Oil Pipe Line Company was incorporated in 1951 by a Special Act of the Parliament of Canada. In 1972, letters patent were issued under Part I of the Canada Corporations Act, continuing the company under the name of Trans Mountain Pipe Line Company Ltd. ("Trans Mountain", "the Applicant" or "the Company".) In 1979, the Company was continued under the same name by certificate of incorporation under the Canada Business Corporations Act. Trans Mountain is authorized to construct and operate pipelines for the transmission of hydrocarbons, connecting a province with any other or others of the provinces or extending beyond the limits of a province, together with all facilities appurtenant thereto for the gathering, storage, transmission and delivery of hydrocarbons.

Trans Mountain owns and operates a pipeline system extending from Edmonton, Alberta, to Burnaby and Port Mann, British Columbia. The trunk line terminal at Burnaby is connected by pipeline to marine loading facilities on a pier at Westridge on Burrard Inlet in Vancouver harbour. From Sumas, British Columbia, a spur line extends from the main trunk line to a point on the international boundary between Canada and the United States of America, where it connects with

a pipeline owned and operated by Trans Mountain Oil Pipe Line Corporation, a wholly-owned United States subsidiary of the Company. The American subsidiary's pipeline extends from the international boundary to delivery points at Ferndale and Anacortes in the State of Washington.

By an application dated 18 July 1980, Trans Mountain applied to the National Energy Board ("the Board", or "the NEB") for an Order under Section 50 of the National Energy Board Act ("the Act"), to amend the schedule of tolls in effect for the transportation of crude oil on behalf of others. Tolls currently in effect are set out in Tariff No. NEB 20, as amended by Supplement No. 1 thereto. The tolls contained in Tariff No. NEB 20, which became effective on 1 October 1979, are the result of a voluntary four percent reduction by the Company in the tolls prescribed by Board Order TO-1-78 dated 3 January 1978, issued following a public hearing of the Company's first rate case held in several sessions in November and December, 1977. Supplement No. 1 to Tariff No. 20, which became effective on 15 October 1979, contains a charge for loading petroleum into tank ships through the Company's Westridge Marine Terminal. The supplement was filed by the Company and accepted by the Board on the basis of the 1977 public hearing.

By Order No. RH-6-80 the Board set this application down for a public hearing. In accordance with subsection 14(1) of the Act, the Board authorized me, as the Presiding Member, to take evidence and hear submissions respecting the application by Trans Mountain, for the purpose of making a report thereon to the Board. The hearing began on 3 November 1980 in Ottawa, Ontario and concluded on 7 November 1980.

The evidence presented and the submissions made by all parties in respect of the Trans Mountain application are set out in the transcripts of the hearing and in the exhibits filed during the course of the hearing.

CHAPTER 2

TEST PERIOD

A test period is a period of time during which costs and revenues are considered to be representative of the period during which the new tolls will apply. A base year is a 12 month period for which actual cost data are available, and the base year costs constitute the basic input that is adjusted to determine costs for the test period.

Trans Mountain presented financial information for the calendar year 1979 as the base year, together with cost estimates for the year 1980. This data constituted the basis for the presentation of cost estimates for the test period (calendar year 1981). During the hearing, the Company revised its cost estimates for the full calendar year 1980 on the basis of the latest actual operating results for the first nine months. This financial information regarding operations in the base year 1979 and in the interim year 1980 was further adjusted as a result of evidence presented at the hearing to produce forecasts of costs for the test year 1981 that are the basis for the determination of tolls for that year.

CHAPTER 3

RATE BASE

3.1 Assets Specially Classified

In its Reasons for Decision in the first Trans Mountain rate case, the Board treated the following as Assets Specially Classified:

- (1) 100 miles of the original mainline pipe subsequently looped;
- (2) 11 deactivated pump stations;
- (3) crude oil facilities at Westridge Marine Terminal; and
- (4) preliminary engineering and construction costs in Account 34.

In doing so, the Board defined Assets Specially Classified as

"assets which it appears were prudently acquired, but which, while they have some value for reasons of stand-by, or security of supply, or convenience of operation, are now not fully utilized because of the substantial decline in throughput."

In that Decision, the Board limited the return on such assets to one-half that allowed on Plant in Service and permitted the remaining net book value to be amortized over a five-year period ending 31 December 1982.

Also in that Decision, the Board excluded from the pipeline rate base those assets at the Westridge terminal available for use for either propane or crude oil shipments ("common dock facilities"). The Board directed that the costs of the common dock facilities should be considered to be recovered in the tolls charged for propane shipments.

In the current application, the Company sought to restore the following Assets Specially Classified to Plant in Service:

- (a) 100 miles of the original mainline pipe subsequently looped;
- (b) four of the deactivated pump stations; and
- (c) the crude oil facilities at Westridge Marine Terminal.

The original cost of these assets was \$18,270,000, and accumulated depreciation at 1 January 1981 will amount to \$16,067,000.

The Company also requested that it be allowed to include in its rate base 50 percent of the Westridge common dock facilities. The original cost of these assets was \$1,253,000, and accumulated depreciation at 1 January 1981 will amount to \$429,000.

3.1.1 Mainline Pipe Subsequently Looped

The Company stated that, although the Board had, in its 1978 Decision, excluded the mainline pipe that was subsequently looped from rate base, nevertheless it has continued to retain the line in continuous service because normal operation involves the use of both lines thereby producing an energy saving. It was noted that the cost of deactivating the line would amount to \$550,000 and that about \$4.75 million of oil would be locked up in the idled line.

The intervenors argued that this plant should remain as Assets Specially Classified because nothing had changed since the last hearing.

3.1.2 Facilities for Security Purposes

In evidence the Company stated that the four pump stations, the crude oil facilities at Westridge, and 50 percent of the common dock facilities provide a means whereby supplies may be shipped to Eastern Canada in the event of a national emergency. It also stated that it is necessary for this purpose to maintain a standby capacity of 24 000 m³ per day in excess of that required for normal operations.

During cross-examination, the Applicant stated that it cannot forecast crude oil movements through Westridge because all of the following conditions must prevail:

- (a) sufficient quantities of oil must be available in Alberta;
 - (b) a shipper must demonstrate an interest in moving the oil;
 - (c) a permit must be obtained from the National Energy Board.
- As a result, the Applicant did not include any movements of crude oil through Westridge in its throughput forecast for the test year.

The Applicant did not rule out the possibility that movements of crude oil by tanker from the Westridge terminal might take place in the future, and stated that the Federal Energy Supplies Allocation Board had requested information relating to the Company's capability of loading oil at Westridge. The Company also noted that, while in

the previous hearing it was not able to forecast any utilization of these facilities, it did in fact load nine tankers over the period 1979-1980.

Pump Stations

A witness for the Company stated that none of the four pump stations were required to move any of the crude oil transported through Westridge in 1980. He indicated that without these stations the system is capable of pumping 36 000 m³ per day which is roughly 10 000 m³ per day above the Company's average daily throughput forecast for the test year. Another witness stated that three to four weeks would be necessary to activate these stations in an emergency.

Some intervenors argued that nothing had changed since the last hearing to cause the Board to alter its decision with respect to the treatment of the pump stations. They cited the facts that the Company did not require the use of these facilities to move any crude oil in 1980 including that shipped by sea, and that no movements of crude oil over the dock have been projected for the test year, as reasons for retention of the stations as Assets Specially Classified.

Westridge Crude Oil Facilities

The Applicant stated that the crude oil facilities at Westridge are only used when the Company is in fact loading crude oil tankers.

Some intervenors argued that since the Company is not projecting any marine loadings for the test year, these assets should remain as Assets Specially Classified.

Westridge Common Dock

Trans Mountain sought to include 50 percent of the net book value of the common dock facilities in its rate base. The Company pointed out that, although the common dock was currently being supported exclusively by shipments of propane, it was originally built to accommodate the offshore movement of surplus crude from Alberta.

The Company stated in its Application that the common dock facility had been used in both 1979 and 1980 for loading crude oil into tankers, and during cross-examination, noted its importance to the country in moving substantial quantities of crude oil to eastern Canada during the Suez crisis in 1956 and the OPEC oil embargo in 1973.

Counsel for the Company stated in argument that no suggestion had been made that the dock or the crude oil facilities at the dock should be abandoned, or that the Board would permit abandonment of this plant.

The intervenors argued that nothing had changed since the last decision and therefore this plant should remain part of the propane operation.

In arriving at my recommendations with respect to Assets Specially Classified, I have taken into consideration the following: (a) the Company's continued use of the original mainline pipe subsequently looped has produced, and will continue to produce, energy savings to the Company, while the cost of deactivating the line would be substantial; (b) if the original mainline pipe subsequently looped is to continue to be included in Assets Specially Classified, I consider that the Company should be allowed the costs of deactivating the line; (c) the Company did in fact utilize the common dock facilities in 1979 and 1980 to load crude oil into tankers; and (d) although the Company is unable to forecast any movements of crude oil over the dock in the test year, the possibility of such movements does exist and the Company keeps the facilities available for use in an emergency.

I recommend the following treatment of these assets:

- (1) the 610-mm original mainline pipe subsequently looped should be included as part of Plant in Service and be accorded a full return on the unamortized balance. However, because this line is not fully utilized in present operations, it should continue to be amortized on the present basis; i.e., over two years commencing 1 January 1981;
- (2) the four pump stations and the crude oil facilities at Westridge should continue to be treated as Assets Specially Classified; and

(3) 50 percent of the undepreciated original cost of the Westridge common dock facilities should be included in Assets Specially Classified and that amount should be amortized over the two-year period from 1 January 1981 to 31 December 1982.

Tables 1 and 2 which appear at the end of this chapter, reflect my recommendations.

3.2 Additions to Plant in Test Year

In the application, the Company requested that plant additions to be made in 1981, estimated at \$1,250,000, be included in rate base for the 1981 test year. During the hearing, the amount was changed to \$1,246,500 as a result of the deletion of a number of items and the addition of a number of others. The proposed additions, which did not include any major additions to plant, were reviewed in considerable detail in cross-examination. Also, the Company advised that its Board of Directors had adopted the list of items totalling \$1,246,500 as its capital budget for 1981.

While these proposed expenditures have not yet been submitted to the Board for approval under Part III of the Act, the total amount appears to be a reasonable estimate of additions to plant in service for the test year. I therefore recommend that, in this instance, \$1,201,500 be allowed as additions to the rate base. The \$45,000 difference between this amount and that

requested by the Company pertains to an "additional six-inch fire water line on Westridge dock to meet Fire Marshall's requirements". I recommend that one half of this amount be included in Assets Specially Classified and the remainder be treated as part of the propane operation.

While I am making this recommendation in the particular circumstances of this case, the Company should understand that the Board's current practice is to not allow additions to rate base except for items that have been considered by the Board under Part III of the Act. It would be expected that the Company would follow this procedure in future.

3.3 Working Capital Allowance

Table 3 sets forth the various components of the working capital portion of the rate base as requested by the Applicant and as I recommend it be allowed.

3.3.1 Project Development Costs

Trans Mountain included in the rate base a deferred charge of \$4,000,000 for project development costs associated with a proposed west-to-east pipeline which would transport crude oil from an oil port at Low Point, Washington to Edmonton, Alberta, for onward shipment via the facilities of other carriers. The Company endeavoured to justify inclusion of these charges in rate base on the grounds that the shippers using the existing pipeline system would enjoy a significant tariff saving due to economies of scale resulting from the operation of two

pipelines in the same right-of-way and from the sharing of administrative overhead costs when and if the new pipeline were constructed. The Applicant also stated that the project would have a major beneficial impact on the Canadian economy and would enhance the utilization of existing pipeline facilities downstream of Edmonton. In addition, the Company indicated that the project could provide Canadian refineries with access to off-shore crude oil.

An intervenor stated that it would be inappropriate to include these project development costs in the rate base because they represent a speculative investment by Trans Mountain's shareholders and their inclusion in the rate base would protect the shareholders from any risk.

Some intervenors submitted that the proposed pipeline would not be part of the present system and would not service present customers. They also suggested that the purpose of the venture was to make a profit for the shareholders, and that whether the pipeline will be built is a matter of conjecture.

I recommend that these project development costs not be included in Trans Mountain's rate base for the following reasons:

- (a) if the proposed west-to-east pipeline were to be built it would not be part of the present system; and
- (b) the fact that customers of the existing system would benefit from the proposed west-to-east line was not established.

3.3.2 Unamortized Rate Hearing Costs

In its application, the Company stated that \$300,000 had been budgeted for the 1980 rate hearing. It was proposed that these costs be amortized over 1981 and 1982 and that the unamortized portion be included in the rate base. This would result in \$225,000 being included in the rate base for the 1981 test year. In keeping with past Board policy, it is my view that the Company's proposal should not be accepted.

3.3.3 Provision for Cash Working Capital

The application originally included an allowance in rate base for cash working capital equal to 34 days' cash operating expenses. The Company amended this figure during the hearing to 33 days. The calculation of the allowance was based on a refined lead-lag study that included 7.61 days for the average transit time in the pipeline system and a "cash cushion" of 15 days. The Company stated that a cash cushion is necessary in order to allow for variations in the timing of receipts and payments, and acknowledged that the 15 days was used because this was the cushion allowed by the Board in its 1978 Decision.

In cross-examination the Company acknowledged that in the original application, there had been some duplication in the inclusion of certain expenses in the lag study as well as in prepayments. The Company filed revised schedules to eliminate this duplication.

Lag study techniques of necessity involve elements of averaging, sampling, and estimating, in which some margin of error exists. The fact that this study and the one submitted in the 1977 hearing produced much the same results, except for the element of transit time, indicates that the Company's estimate of the cash working capital requirement is reasonable and the justification for a cushion has diminished.

I agree that it is reasonable to include average transit time in the lead-lag study. I therefore accept the Applicant's determination of the lead-lag period of 18.2 days, but have judged it appropriate to adjust the cushion downward. Consequently, I recommend that the allowance for cash working capital in the rate base should be equal to 25 days of cash operating expenses (including taxes on income) for the test year.

3.3.4 Current Taxes on Income Payable

As stated in Chapter 4, it is unnecessary to determine separately the amount of an allowance for normalized income taxes. However, to establish the amount of taxes payable to be included in working capital, I recommend that this be calculated on the basis of the Company's actual capital structure.

3.3.5 Prepaid Expenses

In its original application, Trans Mountain requested that \$837,000 prepaid expenses be included in the calculation of working capital. The Company subsequently submitted a revised schedule which increased this amount to \$1,037,000 in order to reflect an increase in the property taxes forecast for the test year. I agree with this adjustment.

TABLE 1
SUMMARY OF RATE BASE
(\$000)

	<u>Company's Revised Application</u>	<u>Recommended Adjustments*</u>	<u>Recommended NEB Determination</u>
<u>Operational Rate Base</u>			
<u>Plant in Service</u>			
Original cost	141,813	(10,436)	131,377
Accumulated depreciation	<u>(113,695)</u>	<u>8,332</u>	<u>(105,363)</u>
	<u>28,118</u>	<u>(2,104)</u>	<u>26,014</u>
Working Capital (see Table 3)	<u>4,935</u>	<u>(595)</u>	<u>4,340</u>
<u>Deferred Charges</u>			
Rate application costs	225	(225)	-
Project development costs	<u>4,000</u>	<u>(4,000)</u>	<u>-</u>
	<u>4,225</u>	<u>(4,225)</u>	<u>-</u>
	<u>37,278</u>	<u>(6,924)</u>	<u>30,354</u>
<u>Assets Specially Classified</u>			
Original cost	9,319	10,423	19,742
Accumulated amortization	<u>(7,851)</u>	<u>(8,894)</u>	<u>(16,745)</u>
	<u>1,468</u>	<u>1,529</u>	<u>2,997</u>

* See Table 2.

TABLE 2

SUMMARY OF RECOMMENDED ADJUSTMENTS TO RATE BASE

(\$000)

	<u>Original Cost</u>	<u>Accumulated Depreciation/ Amortization</u>
<u>Plant in Service</u>		
Disallowance of transfer from Assets Specially Classified		
- pump stations	(8,633)	7,554
- crude oil facilities	(525)	400
Disallowance of request to allow in rate base 50% of the common dock facilities	<u>(1,253)</u>	<u>429</u>
	<u>(10,411)</u>	<u>8,383</u>
Revision of plant additions (average)	(2)	
Removal of plant additions applicable to Westridge (average)	(23)	
Depreciation adjustment (average)		199
Amortization - mainline subsequently looped (average)	<u> </u>	<u>(250)</u>
	<u>(10,436)</u>	<u>8,332</u>
<u>Assets Specially Classified</u>		
Transfer of pump stations, crude oil facilities and 50% common dock facilities (above)	10,411	(8,383)
1981 addition to dock 50% of fire waterline (average)	12	
Adjustment to amortization (average)	<u> </u>	<u>(511)</u>
	<u>10,423</u>	<u>(8,894)</u>

TABLE 3
SUMMARY OF WORKING CAPITAL
(\$000)

	<u>Company's Revised Application</u>	<u>Recommended Adjustments</u>	<u>Recommended NEB Determination</u>
Operating expenses	18,650	45	18,695
Revenue other than carrier revenues	(208)	-	(208)
Current taxes on income payable	<u>7,792</u>	<u>(2,203)</u>	<u>5,589</u>
	<u>26,234</u>	<u>(2,158)</u>	<u>24,076</u>
Cash working capital - factor	34/365		25/365
- amount	2,444	(795)	1,649
Inventories	1,654	-	1,654
Prepaid expenses	<u>837</u>	<u>200</u>	<u>1,037</u>
	<u>4,935</u>	<u>(595)</u>	<u>4,340</u>

CHAPTER 4

COST OF SERVICE EXCLUDING RETURN

4.1 Introduction

This chapter is concerned with components of cost of service excluding return. The following subsections present my views on the issues examined during the hearing and the reasons for the adjustments that I recommend to the Board. Tables 4 and 5 at the end of the chapter summarize these adjustments.

4.2 Operating Expenses

In my view, the estimate of operating expenses comprising maintenance, transportation, and general and administrative expenses, as submitted by the Applicant is reasonable and should be accepted, with the addition of \$45,000 for resurfacing the station roads at Edmonton and Edson. This amount was included in the Company's original estimate of 1981 plant additions. It should be expensed during the 1981 test year in accordance with the Board's Oil Pipeline Uniform Accounting Regulations.

4.2.1 Wages, Salaries and Employee Benefits

In its estimate of the allowance for wages and salaries Trans Mountain applied escalation factors of 11 percent for 1980 and 10 percent for 1981. These escalation

factors were based on a general increase in wages and salaries of 10.5 percent in 1980 and 9.5 percent in 1981, and included an allowance for progression increases of 0.5 percent of wages and salaries for both 1980 and 1981. The Company's 1980 general increase followed the wage settlement pattern established throughout the Canadian oil industry. Trans Mountain proposed an allowance to provide for a 1981 general increase predicated on both the 1980 actual increase and the expected 1981 increase in the cost of living. It estimated that the cost of progression increases will be 2 percent but reduced this to 0.5 percent to reflect the savings from expected staff turnover.

Trans Mountain stated that its personnel complement of employees increased from 173 in 1979, to 178 in 1980, and projected a further increase to 185 in 1981. It submitted that these additional employees were and will be required because of its tank maintenance program, increased administrative responsibilities and training of new personnel.

The Company estimated an increase in employee benefit costs of approximately 9 percent from 1979 to 1981. These increased costs result from staff additions, higher wage and salary levels and increased premiums.

While it is considered that Trans Mountain could have provided additional evidence to support its requested allowance

for progression increases, I consider the overall escalation factors, the estimate of staff levels and the increase in employee benefit costs to be reasonable and accept the Company's estimates of wages, salaries and employee benefits for the test year.

4.2.2 Property Taxes

The Applicant's estimate of 1981 property taxes shows a substantial increase over the actual taxes paid in previous years. Although the Company's estimate was questioned by some intervenors, evidence was adduced that the Government of British Columbia intends to increase the assessment for pipelines substantially, and that Trans Mountain's estimate is based on the proposed assessment rates. In my opinion, this estimate is reasonable and should be accepted.

4.2.3 Rate Hearing Expenses

The Company estimated that its costs for this hearing would total \$300,000 and proposed that they be amortized over two years commencing 1 January 1981. During cross-examination it was stated that the Company's costs for the first hearing totalled \$288,000. Since the first hearing was longer than the present one, the forecast of \$300,000 appears high.

I recommend that \$150,000 be allowed as hearing costs in the test year cost of service and that any amount actually incurred which is not considered to be recovered during the time the tolls based on this hearing are in effect, be carried forward to be considered for inclusion in the cost of service for a subsequent test year.

4.2.4 Allocation of Administration Expenses

During the hearing, the intervenors questioned Trans Mountain's allocation of administration expenses to its subsidiaries and to the proposed west-to-east pipeline project. A witness for the Company stated that no allocation had been made to the west-to-east pipeline project and indicated that no employees were presently employed full-time, and only six employees were working part-time on this project. It is my view that Trans Mountain should establish a more reasonable basis for the allocation of administrative expenses to its non-jurisdictional operations before the next rate hearing. In the meantime, I am prepared to accept the allocation as proposed by the Company.

4.3 Income Taxes

As set forth in Chapter 5 of this Report, I have recommended that the Company be allowed a rate of return before income taxes on both operational rate base and Assets Specially Classified. It is therefore unnecessary to determine separately an allowance for normalized taxes to be included in the cost of service.

4.4 Five Percent Surtax

Recently, the Federal Government announced its intention, by a Notice of Ways and Means Motion, to impose a temporary five percent surtax on the Federal Part 1 tax payable

by corporations, effective for the two-year period 1 January 1980 to 31 December 1981.

In its application, Trans Mountain computed an allowance for normalized taxes at the rate of 51.47 percent, which included a component of 1.8 percent to provide for the recovery of the cost associated with the five percent surtax.

Because the evidence indicated that the Company will be in a tax paying position during the 1981 test year, I believe it is appropriate that the Company be allowed to include in the cost of service an estimate of the surtax it will actually pay.

However, the evidence also indicated that the income taxes actually payable would exceed those provided on a normalized basis in the pretax rate of return, essentially because the depreciation in the cost of service exceeds the capital cost allowance in the tax calculation. In order that the Company be allowed to recover the full amount of the surtax, I recommend that an allowance of \$191,000 be included in the cost of service.

Because the amount of surtax payable forms part of the working capital and consequently the rate base, it is necessary to do several iterations of the calculation to arrive at a reasonable estimate. The computation is as follows:

- 1(a) The allowed pretax rate of return of 23.3 percent is applied to the sum of: average net plant in service; one-half average net Assets Specially Classified; cash working capital exclusive of income taxes; and other working capital elements.
 - (b) The pretax return resulting from (a) is added to the net of the amounts approved in respect of depreciation, amortization, amortization of rate case expenses, and capital cost allowance to arrive at a taxable income.
 - (c) An estimate of taxes payable is computed for inclusion in cash working capital at the rate of 51.47 percent.
- 2(a) Steps 1(a) and 1(b) are repeated with the first estimate of taxes payable, calculated in step 1(c), being included in cash working capital.
 - 3(a) Steps 1(a) and 1(b) are repeated with cash working capital including the second estimate of taxes payable from step 2.
 - (b) Federal Part 1 taxes payable are computed on the taxable income calculated in 3(a) at a rate of 36 percent.
 - (c) Surtax is computed as 5 percent of the taxes payable calculated in 3(b).

The actual calculations are shown in Appendix 3.

The following table summarizes the adjustments to Cost of Service that I am recommending to the Board:

TABLE 4
COST OF SERVICE EXCLUDING RETURN
(\$ 000)

	<u>Company's Revised Application</u>	<u>Recommended Adjustments*</u>	<u>Recommended N.E.B. Determination</u>
Operating expenses	18,650	45	18,695
Revenues other than carrier revenues	(208)	-	(208)
Depreciation	3,412	(398)	3,014
Amortization - mainline pipe subsequently looped	-	500	500
Amortization - Assets Specially Classified	979	1,022	2,001
Rate hearing costs	150	-	150
Income taxes	6,681	(6,681)	-
Surtax - 5%	<u>-</u>	<u>196</u>	<u>196</u>
Total	<u>29,664</u>	<u>(5,316)</u>	<u>24,348</u>

* See Table 5.

TABLE 5
SUMMARY OF RECOMMENDED ADJUSTMENTS TO COST OF SERVICE ITEMS
(\$000)

Operating expenses

Resurfacing of station roads 45

Plant depreciation

Removal of depreciation expense on items
recommended to be treated as Assets
Specially Classified

- pump stations (121)
- Westridge common dock (50%) and crude oil facilities (67)
- mainline pipe subsequently looped (219)

Adjustment to depreciation on 1981 additions 9

(398)

Plant Amortization

Addition to amortization of assets
recommended to be treated as Assets
Specially Classified

- pump stations 540
- Westridge crude oil facilities 62
- Westridge common dock facilities (50%) 412

1981 plant addition to dock facility

- 6" fire water line, cost one half thereof 45
23

amortized over 18-month period
1 July 1981 to 31 December 1982,
one third

8
1,022

CHAPTER 5

RETURN

The Applicant projected its capital structure in 1981 to consist of 2.5 percent deferred taxes and 97.5 percent common equity and applied for a return of 17 percent on common equity, which would result in a 16.58 percent rate of return on rate base for the 1981 test year.

The computation is as follows:

	<u>Ratio (%)</u>	<u>Cost (%)</u>	<u>Cost Component (%)</u>
Deferred Taxes	2.5	-	-
Common Equity	<u>97.5</u>	17.00	<u>16.58</u>
	<u>100.0</u>		<u>16.58</u>

In its 1977 application, the Company applied for a 17 percent rate of return on its actual common equity, which comprised 90 percent of its capital structure, with the remaining 10 percent being deferred taxes. The Board approved an allowance for return on rate base and income taxes of 20.3 percent of the operational rate base and 10.15 percent of Assets Specially Classified.

The expert witness for the Applicant contended that the projected 1981 capital structure of the Company was appropriate for rate-making purposes and that no debt should be imputed. He maintained that it would be imprudent for the Company to borrow money in order to reduce its equity since the Company has considerable business risk and debt would add financial risk. He stated that the only likely source of such debt would be bank financing because, in his view, the Company could not raise debt in the market place for the purpose of reducing its equity capital. The witness further contended that the Company should reserve its present resources and borrowing capacity for the financing of the proposed west-to-east pipeline project which, if completed, would result in reduced tariffs to the present customers. However, he admitted tolls would be higher if the actual capital structure were used than they would be if debt were imputed, because the cost of debt is tax deductible and generally lower than that of equity.

Considering returns available on comparable investments and the prevailing level of interest rates on Government of Canada bonds, the witness recommended a 17 percent rate of return on common equity. His evidence showed that the general cost of capital had increased since the Company's 1977 application. For example, current and forecast 1981 Government of Canada bond yields are

approximately three percentage points higher than they were in 1978. In addition, evidence indicated that, on average, returns on common equity have increased over 1977 levels. He also testified that Trans Mountain faced greater business risk than other Canadian utilities, but less, on average, than industrial companies, and suggested that in order to introduce a sufficient differential between its allowed return on equity and Canadian debt instruments, the Company merited a return on equity of 17 percent.

While contending that it was not appropriate, the witness testified that, if the Board were to impute a notional debt component for rate making purposes, it would have to be in the 25 to 30 percent range with an interest rate of 14 percent. The return on the resulting equity should then be 17.5 percent due to the increased financial risk. Furthermore, in view of Trans Mountain's risks, the interest coverage should be compared with industrial coverages averaging from 5 to 7 times, rather than with utility and pipeline coverages of approximately 3 to 3.5 times. As a result, he recommended that the Company's coverage be approximately 5 times, which would limit debt to 25 to 30 percent.

During cross-examination, the witness acknowledged that he could not point to any particular change in business risk since the 1977 application that would justify any alteration in the approved capitalization or rate of return.

Some intervenors submitted that future financing requirements and potential benefits to present customers from the west-to-east pipeline project are irrelevant for rate making purposes for the 1981 test year. They also contended that the present capitalization is not appropriate for rate making purposes because it does not meet the test of minimizing the cost of transportation to the consumer.

An intervenor stated that, for rate making purposes, the question should not be whether this is a propitious time for the company to issue debt, but rather, given the level of business risks, what is the appropriate capital structure. Intervenors argued that the capital structure, cost of debt, and rate of return on equity should be compared to other regulated pipeline operations - principally, Westcoast Transmission Limited ("Westcoast"); Interprovincial Pipe Line Limited ("I.P.L."); Nova, an Alberta Corporation; Alberta Natural Gas Company Limited ("A.N.G."); and TransCanada PipeLines Limited ("TransCanada"), - since they represent the most comparable companies.

Taking into account that Trans Mountain does not have any debt at this time or in its projected 1981 capital structure and that equity capital is more costly to the customers than debt capital, I consider that it is not appropriate to allow the Company a rate of return of 17 percent on 97.5 percent common equity.

After considering the positions taken by the Company and intervenors with respect to deeming a capital structure, I am of the opinion that, in the circumstances of this case, it is not necessary to deem a capital structure to arrive at an appropriate rate of return. No evidence was presented that indicated that the return awarded by the Board in its 1978 Decision has caused any hardship to the Company. Evidence was presented that indicated that the risks to which Trans Mountain is exposed have not changed in any material way since the 1977 proceedings before this Board, but that the cost of capital has risen in the last two years.

After giving careful consideration to all of the evidence, including increases in the cost of capital and the fact that an increase in the return on equity results in an increase in income taxes, it is my recommendation that the allowance for return on rate base and income taxes, excluding surtax, be increased by 3 percentage points to 23.3 percent on the test year operational rate base, and by 1.5 percentage points to 11.65 percent on the Assets Specially Classified. As a result, the before- and after-tax rate of return on rate base would be higher than that awarded by the Board to Westcoast, I.P.L., A.N.G. and TransCanada, thus reflecting the greater risks to which Trans Mountain is exposed. However, the resulting return on equity would be lower than that for each of these other companies, because of Trans Mountain's particular capital structure with its resulting tax consequences.

TABLE 6
SUMMARY OF RETURN

	<u>Company's Revised Application</u>	<u>Recommended</u>
<u>Rate of Return(%)</u>		
Rate base	16.58*	23.30**
Assets Specially Classified	8.29*	11.65**
<u>Rate Base (\$000)</u>		
Full return	<u>37,278</u>	<u>30,354</u>
Assets Specially Classified	<u>1,468</u>	<u>2,997</u>
<u>Return (\$000)</u>		
Full	6,181*	7,072**
Assets Specially Classified	<u>122*</u>	<u>349**</u>
	<u>6,303*</u>	<u>7,421**</u>

* After tax

** Before tax

Note: The recommended return of \$7,421,000 is comparable to the Company's applied for return of \$6,303,000 and income taxes of \$6,681,000.

CHAPTER 6

REVENUE REQUIREMENT

The net revenue requirement that I recommend Trans Mountain be authorized to collect by means of tolls for the transportation of oil is the total of the items of cost of service appearing in the final column of the following summary table.

TABLE 7

(\$000)

	<u>Company's Revised Application</u>	<u>Recommended Adjustments</u>	<u>Recommended N.E.B. Determination</u>
Cost of service excluding return	29,664	(5,316) ⁽¹⁾	24,348
Return on operational rate base	6,181 ⁽²⁾	891 ⁽¹⁾	7,072 ⁽³⁾
Return on Assets Specially Classified	<u>122</u> ⁽²⁾	<u>227</u> ⁽¹⁾	<u>349</u> ⁽³⁾
	<u>35,967</u>	<u>(4,198)</u>	<u>31,769</u>

(1) Includes reclassification of income tax from cost of service to return.

(2) After tax

(3) Before tax

CHAPTER 7

TOLLS

7.1 Throughput

Trans Mountain Pipe Line's estimate of throughput for 1981 for the purpose of designing tolls is 26 000 cubic metres per day. Compared with 1980, this is a reduction of 1 650 cubic metres per day. This reduced forecast is expected because of smaller crude volumes to be exchanged, a drop in the deliveries of butane to the Shell refinery at Anacortes, Washington, and the absence of marine loadings at Westridge.

In general, I am satisfied that the Applicant's throughput forecast for 1981 is reasonable. However, I believe that there should be a change in the composition of the forecast. The Applicant's throughput forecast included shipments in 1981 of 3 100 cubic metres per day of B.C. crude from Kamloops to Vancouver. In response to questions on the accuracy of this estimate, and after checking with the shippers, the Applicant stated that this volume should be reduced by approximately 350 to 450 cubic metres per day. On this basis, I recommend that the estimated throughput of B.C. crude from Kamloops to Vancouver for 1981 be reduced by 400 cubic metres per day to 2 700 cubic metres per day. As a result of this revision, I also recommend an increase in the Applicant's estimate of throughput of Alberta crude from Edmonton to Vancouver for 1981 of 400 cubic metres per day to 17 100 cubic metres per day. Thus, there would be no

change in the estimated volume that the Vancouver refineries would receive in 1981 or the total estimated throughput.

I accept the Applicant's position that it is impossible to forecast whether there will be any crude oil shipments over the Westridge docks in the test year.

Table 8 sets out the throughput that I recommend be used for toll design for 1981.

TABLE 8

<u>FROM EDMONTON:</u>	<u>m³/day</u>
Density greater than 876 to Vancouver	100
Density 876 to 779 inclusive	
to Kamloops	1 000
to Sumas	3 000
to Vancouver	17 100
Density 778 to 612 inclusive to Vancouver	500
Density 611 and lower to Sumas	200
<u>FROM EDSON:</u>	
Density 876 to 779 inclusive to Vancouver	1 100
Density 778 to 612 inclusive to Vancouver	200
<u>FROM KAMLOOPS:</u>	
Density 876 to 779 inclusive to Vancouver	2 700
Density 778 to 612 inclusive to Sumas	<u>100</u>
TOTAL	<u>26 000</u>

7.2 Toll Design

To determine its proposed tolls for the 1981 test year, the Applicant used the same toll design methodology as was employed by the Board in its Reasons for Decision dated January 1978.

At page 3-15 of that Decision, the Board recognized that some further refinements could be addressed at the next hearing. During cross-examination in the current proceedings, the Applicant agreed that some minor refinements should be made in the toll design methodology to ensure consistency in the determination of the Company's overall revenue requirement and the revenue requirements of both the Edson gathering line and the transmission function. The Applicant filed revised schedules which reflected these refinements.

Generally, I am of the opinion that the revised method of cost allocation reasonably reflects the manner in which costs are incurred, and I am satisfied that this methodology equitably distributes the total costs of operating the Company's pipeline among all users of the system. On the basis of the approved revenue requirement and the adjusted cost allocation procedure, I have calculated the appropriate charge for the Edson gathering line, and the Company's trunk line tolls for the 1981 test year. Table 9 at the end of this section shows the tolls I recommend together with the present tolls and those which were proposed by the Company. Detailed calculations in support of the computation of the tolls are contained in Appendix 2.

7.3 Westridge Loading Charge

The Applicant did not propose to change its present charge of \$0.251 per cubic metre for loading petroleum from Burnaby through the Westridge loading facilities. Although the Company has not forecast any movements of crude oil over the Westridge dock for the test year, the Company felt that, if any such movements were in fact to occur in 1981, the present marine loading charge would be sufficient to cover the additional out-of-pocket expenses, e.g. labour, rental of tugs, rental of oil booms, which occur only at the time of loadings into tankers.

I see no reason to adjust the Company's Westridge loading charge and therefore recommend that the Company be authorized to continue to apply its present Westridge loading charge to any loadings that might occur during the test year.

7.4 Adjustment of Tolls

In its 1978 Decision, the Board required Trans Mountain to file monthly an updated forecast of throughput for the test year 1978, and also required the Company to file new tolls when the forecast average daily throughput varied by five percent or more from the test year approved forecast.

During this hearing, the Board's toll adjustment procedure was not addressed by any intervenor, but the Applicant stated during cross-examination that the Board's procedure was not unreasonable.

I have reviewed the Board's previous decision on this matter and recommend that, in lieu of the requirement to file volume estimates monthly, the Board require the Company to file quarterly, beginning 1 January 1981, for the current calendar year and the ensuing twelve months, its forecast of throughputs expressed in cubic metres per day, in a format similar to that shown in Table 8 of these Reasons for Decision. I further recommend that the requirement to file new tolls when the forecast average daily throughput varies by five percent or more from the test year approved forecast, be continued.

TABLE 9

List of Tolls in Dollars Per Cubic Metre
(Density ranges in kilograms per cubic metre at 15° Celsius)

	<u>Present</u>	<u>Proposed</u>	<u>Recommended</u>
<u>Edmonton to Burnaby & Port Mann</u>			
> 876	3.757	4.729	4.077
876 - 779	3.434	4.320	3.725
778 - 612	3.144	3.953	3.410
< 612	2.465	3.095	2.672
<u>Edmonton to Kamloops</u>			
> 876	2.753	3.458	2.985
876 - 779	2.522	3.165	2.733
778 - 612	2.313	2.901	2.506
< 612	1.826	2.286	1.978
<u>Edmonton to Sumas</u>			
> 876	3.581	4.509	3.888
876 - 779	3.275	4.121	3.554
778 - 612	2.998	3.771	3.253
< 612	2.353	2.955	2.552
<u>Edson to Burnaby & Port Mann</u>			
> 876	3.049	3.835	3.308
876 - 779	2.791	3.507	3.027
778 - 612	2.558	3.213	2.774
< 612	2.015	2.526	2.183
<u>Edson to Kamloops</u>			
> 876	2.045	2.564	2.216
876 - 779	1.878	2.352	2.034
778 - 612	1.727	2.162	1.871
< 612	1.376	1.717	1.489
<u>Edson to Sumas</u>			
> 876	2.874	3.611	3.116
876 - 779	2.631	3.304	2.852
778 - 612	2.413	3.028	2.615
< 612	1.903	2.383	2.061
<u>Kamloops to Burnaby & Port Mann</u>			
> 876	1.208	1.505	1.307
876 - 779	1.117	1.390	1.207
778 - 612	1.035	1.286	1.118
< 612	0.843	1.043	0.910
<u>Kamloops to Sumas</u>			
> 876	1.032	1.282	1.115
876 - 779	0.957	1.186	1.033
778 - 612	0.889	1.101	0.959
< 612	0.731	0.901	0.787
<u>Edson Gathering Line Charge</u>			
	0.412	0.527	0.379
<u>Westridge Loading Charge</u>			
	0.251	0.251	0.251

CHAPTER 8

METHOD OF REGULATION

As it had done in the previous rate hearing, Trans Mountain submitted that the "rate base rate of return" method of regulation is an inappropriate method of determining fair and reasonable tolls for its pipeline. In the 1978 Reasons for Decision, although the Board recognized the problem of the declining earnings of a mature company with a diminishing rate base, it noted that the Applicant had not adduced evidence on economic principles or presented significant relevant regulatory precedents to support its view. During this hearing the Company engaged an expert witness to discuss the economic principles but agreed the tolls for the test period be calculated in the traditional manner.

I note that the Applicant was not proposing to change at this time from the existing method of regulation based on a depreciated historical cost rate base and that its evidence in this matter was presented for purposes of discussion only. The following comments, therefore, are not a part of my recommendations for establishing the tolls and tariffs for the test year.

The witness for Trans Mountain recommended that the depreciation charge in the cost of service be adjusted by an inflation factor to allow the company to recover its capital in real dollar terms. Depreciation for rate base purposes would continue to be accumulated without adjustment. The witness also

suggested that maximum allowable tolls be set at the higher of average or marginal cost with a range of error of some 10 percent.

The concept of calculating tolls on other than a historical cost basis would, in my opinion, present significant additional rate making complications, particularly in establishing comparability with the earnings of other companies to fix an appropriate return for the Company. Furthermore, I note that indexing depreciation charges to account for inflation would not address the Company's main concern, which is the declining rate base.

The marginal cost alternative approach may have economic merit in theory, but I am concerned that it would present some serious problems in implementation.

As indicated in the 1978 Decision, the Board recognizes the problem that confronts Trans Mountain as well as other pipeline companies as they mature. Trans Mountain should be encouraged, therefore, to continue its investigation of this matter and to submit its further proposals to resolve this problem.

CHAPTER 9

RECOMMENDED DISPOSITION

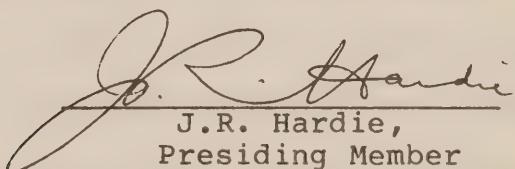
The only matters at issue during the hearing of the Trans Mountain application related to the tolls to be charged by the Company; no questions arose respecting the other provisions of the Company's tariffs.

On the basis of the evidence and argument presented at the hearing of this application, I recommend to the Board that:

- (1) Trans Mountain's Tariff No. NEB 20 and Supplement No. 1 thereto, which are now in effect, be disallowed effective December 31, 1980;
- (2) the tolls shown in Table 9 to this report as the recommended tolls be the tolls to be charged by Trans Mountain effective January 1, 1981;
- (3) the charge for gathering services performed by Trans Mountain into its Edson Station from the Edson Gas Plant be \$0.379 per cubic metre in addition to the tolls recommended above;
- (4) the charge for loading crude oil into tank ships through Trans Mountain's Westridge marine loading facilities be \$0.251 per cubic metre in addition to the tolls recommended above;
- (5) the terms and conditions under which oil may be transmitted by Trans Mountain be the Rules and Regulations contained in Tariff No. NEB 20 and Supplement No. 1 thereto;

- (6) Trans Mountain be directed to file a new tariff with the Board forthwith in conformity with the above recommendations, and be directed to serve that tariff upon all parties to the hearing of this application and upon its shippers;
- (7) if a new tariff is filed prior to January 1, 1981, it be suspended and be of no effect until that date; and
- (8) any provisions of Trans Mountain's tariffs that are contrary to the Act or any Order of the Board including the Order recommended by me as a result of my report, be disallowed effective December 31, 1980.

I submit this, my report, to the National Energy Board in accordance with section 14 of the Act. I respectfully recommend that it be adopted as the Board's own findings and decision on the application as allowed under the said section.



J.R. Hardie,
Presiding Member

NATIONAL ENERGY BOARD



OFFICE NATIONAL DE L'ÉNERGIE

ORDER NO. RH-6-80

IN THE MATTER OF the National Energy Board Act and the Regulations made thereunder, and

IN THE MATTER OF an application by Trans Mountain Pipe Line Company Ltd. (hereinafter) called "The Applicant") for certain orders respecting tolls and tariffs pursuant to Part IV of the National Energy Board Act, filed with the Board under File No. 1762-T4-2.

B E F O R E the Board on Thursday, the 4th day of September, 1980.

Upon reading the application filed on behalf of the Applicant dated the 18th day of July 1980, (hereinafter called "the Application"), under Part IV of the National Energy Board Act, for orders fixing the just and reasonable tolls the Applicant may charge for or in respect of the transportation of crude oil and other liquid hydrocarbons and for such further order or orders as will enable the Applicant to file a tariff containing tolls which are just and reasonable.

IT IS ORDERED THAT:

1. The Application made under Part IV of the National Energy Board Act will be heard at a public hearing commencing at 9:30 a.m. local time, on Tuesday, the 28th day of October, 1980 in the Hearing Room of the National Energy Board, Trebla Building, 473 Albert Street, in the City of Ottawa, in the Province of Ontario, (hereinafter referred to as "the Hearing"). The Hearing will be conducted in either of the two official languages and simultaneous interpretation will be provided should a party to the proceedings request such facilities in his intervention.

The Applicant shall, forewith, serve a true copy of the Application, if not already served, and a true copy of this Order, upon all its shippers and customers, the Attorneys General of the Provinces of British Columbia and Alberta, the British Columbia Energy Commission, the Canadian Petroleum Association, the British Columbia Petroleum Association, and the Independent Petroleum Association of Canada and, as soon as possible, upon any other persons who have intervened pursuant to paragraph 4 hereof.

3. Notice of the Hearing in the form prescribed by the Board as set forth in Appendix I attached to and forming part of this Order shall be published no later than the 15th day of September 1980, or as soon thereafter as possible, in one issue each of "The Vancouver Sun" and "The Vancouver Province" both in the City of Vancouver, "The Kamloops Sentinel" in the City of Kamloops, all in the Province of British Columbia; "The Herald" in the City of Calgary and "The Journal" in the City of Edmonton, both in the Province of Alberta; "The Globe and Mail" in the City of Toronto, "The Citizen" and "Le Droit" in the City of Ottawa, all in the Province of Ontario; and as soon as may be possible, in the Canada Gazette.

4. Any person intending to oppose or intervene in the said Application, shall, on or before the 10th day of October, 1980 file with the Secretary of the Board thirty (30) copies of a written statement containing his reply or submission, together with any supporting information, particulars or documents, which shall include a concise statement of the facts from which the nature of the respondent's or intervenor's interest in the

proceedings may be determined, which may admit or deny any or all the facts alleged in the Application and shall be endorsed with the address of the intervenor or the intervenor's solicitor to whom communications may be sent. The intervention may be in either of the two official languages and shall state the official language in which the intervenor wishes to be heard. Any respondent or intervenor shall, on or before the 10th day of October, 1980, serve three (3) copies of his reply or submission and supporting information, particulars or documents upon the Applicant and one (1) copy each upon the Attorneys General of the Provinces of British Columbia and Alberta, the British Columbia Energy Commission, the Canadian Petroleum Association, the British Columbia Petroleum Association and the Independent Petroleum Association of Canada and shall file proof of service thereof with the Board at the opening of the Hearing.

5. The applicant shall prepare its direct evidence in written question and answer form with lines numbered (hereinafter called "written direct evidence") for each of its witnesses and shall,

- (a) on or before the 3rd day of October, 1980 file thirty (30) copies thereof with the Board, and
- (b) as soon as possible, serve one copy of the same upon any party who has intervened pursuant to paragraph 4 of this Order.

6. Any party who has intervened pursuant to paragraph 4 hereof and who wishes to present direct evidence in the Hearing, shall prepare written direct evidence, and shall, on or before

the 17th day of October, 1980 file thirty (30) copies thereof with the Board and serve one (1) copy of the same upon the Applicant and each other party who has intervened pursuant to paragraph 4 hereof, a list of which intervenors will be available from the Board on the 14th day of October, 1980.

7. The Rules and Procedures set out in Appendix II to this order shall govern the conduct of the Hearing.

8. Any interested party may examine a copy of the Application and the submissions filed therewith at the office of:

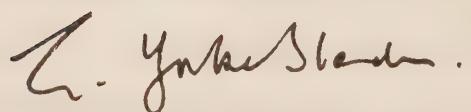
National Energy Board
Trebla Building
473 Albert Street
Ottawa, Ontario
K1A 0E5

or at the office of the Applicant at the following address:

Trans Mountain Pipe Line Company Ltd.,
400 East Broadway,
Vancouver, British Columbia,
V5T 1X2.

DATED at the City of Ottawa, in the Province of Ontario,
this 4th day of September, 1980.

NATIONAL ENERGY BOARD



G. Yorke Slader
Secretary

National Energy Board

NOTICE OF PUBLIC HEARING
Trans Mountain Pipe Line Company - TOLLS AND TARIFFS

Trans Mountain Pipe Line Company has applied to the National Energy Board for approval of the tolls to be charged for the transportation of crude oil and other liquid hydrocarbons through its pipeline system.

The National Energy Board will conduct a public hearing on the application to obtain information and to hear the relevant views of interested persons, groups, organizations and companies.

The hearing will open on Tuesday, 28 October, 1980 at 9:30 a.m. local time, in the Hearing Room of the Board, Trebla Building, 473 Albert Street, Ottawa, Ontario. It will be conducted in either English or French and simultaneous interpretation will be provided should a party to the proceedings request this service in a written submission.

Any party who intends to participate in the hearing must file with the Board a written submission, together with any supporting information, particulars and documents, in either English or French, which may admit or deny any or all of the statements contained in the application. The submission must state:

- 1) the nature of the party's interest in the application,
- 2) whether the party wishes to use English or French at the hearing, and
- 3) the name and address of the interested party or that of the lawyer to whom communications may be sent.

Thirty (30) copies of the submission and any supporting information must be delivered to the Secretary of the Board no later than 10 October 1980. Three (3) copies must be delivered by the same date to Trans Mountain Pipe Line Company, (mailing address: 400 East Broadway, Vancouver, British Columbia V5T 1X2), and one (1) copy to each of the following: The Attorneys General of the Provinces of British Columbia and Alberta, the British Columbia Energy Commission, the Canadian Petroleum Association, the British Columbia Petroleum Association and the Independent Petroleum Association of Canada. At the opening of the hearing, the Board will require written proof that the submission and any supporting documents have been served on the parties listed above.

A copy of the application will be available for examination during normal business hours at the following locations:

Ottawa National Energy Board,
 Trebla Building,
 473 Albert Street,
 Ottawa, Ontario
 K1A 0E5

Vancouver Trans Moutain Pipe Line Company,
 400 East Broadway,
 Vancouver, British Columbia,
 V5T 1X2

Inquiries regarding the hearing may be made in writing to the Secretary of the Board in Ottawa at the address above or by telephoning 613-593-4876.

STATUTORY REFERENCES

The National Energy Board Act, Part IV (R.S.C. 1970, c. N-6, as amended).

G. Yorke Slader
Secretary

RULES AND PROCEDURES

1. In these Rules, "party" means Trans Mountain Pipe Line Company Ltd. and any respondent or intervenor who has filed with the Secretary of the Board a written statement pursuant to paragraph 4 of Order No. RH-6-80.
2. At the public hearing of the Application by Trans Mountain Pipe Line Company Ltd., the Board will proceed by first hearing all of the evidence of Trans Mountain Pipe Line Company Ltd., followed by the evidence of all intervenors. The Board will then hear any rebuttal evidence which Trans Mountain Pipe Line Company Ltd. may choose to present.
3. Upon the completion of the evidence referred to in paragraph 2 of these Rules, the Board will hear the oral argument of all parties.
4. Any party who wishes to obtain additional information from the Applicant in respect of matters raised in the application and submission, may request in writing that such information be provided, and the Applicant shall, as soon as possible, either provide a written response to the request, or refer the question to the Board under Paragraph 7 hereof. Wherever possible, in order to expedite the hearing, these requests and responses should be made before the commencement of the hearing.
5. Where a party files and serves written direct evidence pursuant to paragraph 6 of Order No. RH-6-80, any party may request in writing that the party filing such written direct evidence provide additional information respecting the matters

dealt with in the direct evidence and the party to whom such a written request is made shall, as soon as possible, make a written response to that request.

6. Both the written requests and the responses thereto, referred to in paragraphs 4 and 5 of these Rules, shall be filed as exhibits at the hearing.

7. If any question arises upon which a decision of the Board may be required, a notice of motion with respect thereto shall be filed with the Secretary of the Board and served upon all other parties, and the motion will be heard by the Board at the hearing on a date to be fixed by it.

8. The order of appearances and the sequence of adducing evidence and conducting cross-examination shall be announced by the Board on or before the opening of the hearing.

NATIONAL ENERGY BOARD



OFFICE NATIONAL DE L'ÉNERGIE

ORDER NO. AO-1-RH-6-80

IN THE MATTER OF the National Energy Board Act and the Regulations made thereunder, and

IN THE MATTER OF an application by Trans Mountain Pipe Line Company Ltd. (hereinafter called "the Applicant") for certain orders respecting tolls and tariffs pursuant to Part IV of the National Energy Board Act, filed with the Board under File No. 1762-T4-2.

B E F O R E the Board on Thursday, the 11th day of September, 1980.

WHEREAS, by Order No. RH-6-80, the National Energy Board has set down for hearing in the City of Ottawa, commencing on Tuesday, the 28th day of October, 1980, the application filed on behalf of the Applicant for orders fixing the just and reasonable tolls the Applicant may charge for or in respect of the transportation of crude oil or other liquid hydrocarbons, and for such further order or orders as will enable the Applicant to file a tariff containing tolls which are just and reasonable;

AND WHEREAS the Board wishes to change the date by which any party who has intervened in the proceedings and who wishes to present direct evidence is required to file and serve written direct evidence;

IT IS ORDERED THAT:

Paragraph 6 of Order No. RH-6-80, dated the 4th day of September, 1980, be revoked and the following substituted therefor:

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"6. Any party who has intervened pursuant to paragraph 4 hereof and who wishes to present direct evidence in the Hearing, shall prepare written direct evidence, and shall, on or before the 21st day of October, 1980, file thirty (30) copies thereof with the Board and serve one (1) copy of the same upon the Applicant and each other party who has intervened pursuant to paragraph 4 hereof, a list of which intervenors will be available from the Board on the 14th day of October, 1980."

DATED at the City of Ottawa, in the Province of Ontario, this 11th day of September, 1980.

NATIONAL ENERGY BOARD

G. Yorke Slader.

G. Yorke Slader
Secretary

ORDER NO. AO-2-RH-6-80

IN THE MATTER OF the National Energy Board Act and the Regulations made thereunder; and

IN THE MATTER OF an application by Trans Mountain Pipe Line Company Ltd. (hereinafter called "the Applicant") for certain orders respecting tolls and tariffs pursuant to Part IV of the National Energy Board Act, filed with the Board under File No. 1762-T4-2.

B E F O R E the Board on Thursday, the 2nd day of October, 1980.

UPON an application by Trans Mountain Pipe Line Company Ltd. for an extension of the time for the filing of its direct testimony from the 3rd day of October, 1980, as specified in paragraph 5 of Order No. RH-6-80, to the 9th day of October, 1980;

IT IS ORDERED THAT Order No. RH-6-80 be varied by striking out subparagraph 5(a) thereof and substituting therefor the following:

"(a) on or before the 9th day of October, 1980, file thirty (30) copies thereof with the Board, and".

NATIONAL ENERGY BOARD

A handwritten signature in black ink that reads "G. Yorke Slader".

G. Yorke Slader
Secretary

DETERMINATION OF RECOMMENDED TERMINALLING AND TRANSMISSION CHARGES

1. TERMINALLING CHARGE

Return on rate base @ 23.3%	\$619,000
Depreciation	298,000
Operating costs - maintenance	450,000
- oil losses	200,000
- insurance	10,000
- property taxes	316,000
- general & admin.	146,000
Revenue Requirement	<u>\$2,039,000</u>

Estimated throughput
($26\ 000\ m^3/day \times 365$) $9\ 490\ 000\ m^3$

Terminalling charge $\$0.2148/m^3$

2. TRANSMISSION CHARGE

Total Revenue Requirement	\$31,769,000
Less - terminalling charge revenue	(2,038,452)
- Edson gathering line revenue	(27,667)
	<u>\$29,702,881</u>

Estimated throughput
($26\ 564\ 663\ m^3\ km/day \times 365$) $9\ 696\ 101\ 995\ m^3\ km$

Transmission charge $\$0.00306338/m^3\ km$

DETERMINATION OF RECOMMENDED TERMINALLING RATE BASE

	<u>Per Company</u> <u>Revised</u> <u>Submission</u>	<u>(1)</u>	<u>Recommended</u> <u>Adjustments</u>	<u>Recommended</u> <u>N.E.B.</u> <u>Determination</u>
1. Derivation of tankage rate base (\$000)				
Tankage in service at Jan. 1 1981 (A/C 161 only)	9,871		-	9,871
Acc. deprec. on tankage at Jan. 1, 1981	<u>7,248</u>		-	7,248
Depreciated value of tankage at Jan. 1, 1981	2,623		-	2,623
Estimated 1981 tankage additions	420		(285) ⁽²⁾	135 ⁽²⁾
Estimated 1981 depreciation provision	<u>(302)</u>		4	<u>(298)</u>
Depreciated value of tankage at Dec. 31, 1981	2,741		(281)	2,460
Mid-year average	<u>2,682</u>		(140)	<u>2,542</u>
Allowance for working capital	154		(40)	114
Mid-year rate base	<u>2,836</u>		<u>(180)</u>	<u>2,656</u>
2. Calculation of working capital for tankage rate base				
Operating costs (\$000)				
Maintenance	450		-	450
Oil losses	200		-	200
Insurance	10		-	10
Property taxes	316		-	316
General and administration costs	146		-	146
Income tax payable	577		(31) ⁽³⁾	546 ⁽³⁾
	<u>1,699</u>		<u>(31)</u>	<u>1,668</u>
Allowance for cash working capital (\$000)				
@ 33/365	154			
@ 25/365				114

Notes: (1) Source: Exhibit 31, rate base page 5(b); working capital page 5(c).

(2) Reflects the revised Capital Expenditure Budget for 1981 - Exhibit 30.

(3) Pro-rated on the basis of the mid-year tankage rate base excluding working capital to the total mid-year rate base excluding working capital.

DETERMINATION OF RECOMMENDED EDSON GATHERING LINE CHARGE

Edson Gathering Line Charge

Return on rate base @ 23.3%	\$13,962
Depreciation	2,313
Operating costs - maintenance	4,650
- transportation	3,200
- property taxes	2,090
- general & admin.	<u>1,490</u>
Revenue requirement	<u>\$27,706</u>
Estimated throughput (200 m ³ /day x 365)	73 000 m ³
Gathering line charge	<u>\$ 0.379 m³</u>

DETERMINATION OF RECOMMENDED EDSON GATHERING LINE RATE BASE

	<u>Per Company's Revised Submission</u>	<u>(1) Recommended Adjustments</u>	<u>Recommended N.E.B. Determination</u>
1. Derivation of Rate Base			
Gross Plant in Service at Jan. 1, 1981	\$248,901 ⁽²⁾	-	\$248,901
Acc. depreciation at Jan. 1, 1981	<u>(189,428)</u>	-	<u>(189,428)</u>
Depreciated Plant in Service at Jan. 1, 1981	59,473		59,473
1981 depreciation provision	<u>(2,313)</u>	-	<u>(2,313)</u>
Depreciated Plant in Service at Dec. 31, 1981	<u>57,160</u>	-	<u>57,160</u>
Mid-year average	<u>58,317</u>	-	<u>58,317</u>
Allowance for working capital	<u>2,162</u>	<u>\$ (557)</u>	<u>1,605</u>
Mid-year rate base	<u>\$ 60,479</u>	<u>\$ (557)</u>	<u>\$ 59,922</u>
2. Calculation of Working Capital			
Operating Costs			
Maintenance	\$ 4,650	-	\$ 4,650
Transportation	3,200	-	3,200
Property taxes	2,090	-	2,090
General and admin.	1,491	-	1,491
Income tax payable	<u>12,487</u>	<u>\$ (487)⁽³⁾</u>	<u>12,000⁽³⁾</u>
Allowance for cash working capital	<u>\$ 23,918</u>	<u>\$ (487)</u>	<u>\$ 23,431</u>
Allowance for cash working capital @ 33/365	\$ 2,162		
@ 25/365			\$ 1,605

Notes: (1) Source: Exhibit 31, rate base page 6(a),
working capital page 6(b).

(2) Includes one storage tank dedicated to
condensate service whose original cost is
\$132,871 and which is fully depreciated.

(3) Pro-rated on the basis of the mid-year
Edson gathering line rate base excluding
working capital to the total mid-year rate
base excluding working capital.

CALCULATION OF ALLOCATION UNITS FOR TRANSMISSION
CHARGE COMPONENT OF TOLLS

<u>Haul</u>	<u>Distance km</u>	<u>Density Adjustment Factor</u>	<u>Recommended Throughput m /day</u>	<u>Recommended Throughput m km/day</u>
<u>Density > 876</u>				
Edmonton to Vancouver	1 146	1.1	100	126 060
<u>Density 876-779 inclusive</u>				
Edmonton to Vancouver	1 146	1.0	17 100	19 596 600
Edmonton to Kamloops	822	1.0	1 000	822 000
Edmonton to Sumas	1 090	1.0	3 000	3 270 000
Edson to Vancouver	918	1.0	1 100	1 009 800
Kamloops to Vancouver	324	1.0	2 700	874 800
<u>Density 778-612 inclusive</u>				
Edmonton to Vancouver	1 146	0.91	500	521 430
Edson to Vancouver	918	0.91	200	167 076
Kamloops to Sumas	267	0.91	100	24 297
<u>Density < 612</u>				
Edmonton to Sumas	1 090	0.7	200	152 600
TOTAL			<u>26 000</u>	<u>26 564 663</u>

CALCULATION OF FIVE PERCENT SURTAX

First approximation of rate base (\$000's)

Average net plant in service	26,014
One-half average net Assets Specially Classified	1,499
Cash working capital	
Operating expenses	18,695
Revenues other than carrier	(208)
Income taxes payable	<u>0</u>
	<u>18,487</u>
25/365	1,266
Inventories	1,654
Prepaid expenses	<u>1,037</u>
	<u>31,470</u>

First approximation of income taxes payable (\$000's)

Return on rate base before taxes (31,470 x .233)	7,333
Depreciation	3,014
Amortization - Assets Specially Classified	2,001
Amortization - mainline pipe subsequently looped	500
Amortization - rate case expenses	150
Capital cost allowance	(2,227)
Taxable Income	<u>10,771</u>
Income taxes payable at 51.47%	<u>5,544</u>

Second approximation of rate base (\$000's)

Average net plant in service	26,014
One-half average net Assets Specially Classified	1,499
Cash working capital	
Operating expenses	18,695
Revenues other than carrier	(208)
Income taxes payable	<u>5,544</u>
	<u>24,031</u>
25/365	1,646
Inventories	1,654
Prepaid expenses	<u>1,037</u>
	<u>31,850</u>

Second approximation of income taxes payable (\$000's)

Return on rate base before taxes (31,850 x .233)	7,421
Depreciation	3,014
Amortization - Assets Specially Classified	2,001
Amortization - mainline pipe subsequently looped	500
Amortization - rate case expenses	150
Capital cost allowance	(2,227)
Taxable Income	<u>10,859</u>
Income taxes payable at 51.47%	<u>5,589</u>

Third approximation of rate base (\$000's)

Average net plant in service	26,014
One-half average net Assets Specially Classified	1,499
Cash working capital	
Operating expenses	18,695
Revenues other than carrier	(208)
Income taxes payable	<u>5,589</u>
	<u>24,076</u>
25/365	1,649
Inventories	1,654
Prepaid expenses	<u>1,037</u>
	<u>31,853</u>

Third approximation of income taxes payable (\$000's)

Return on rate base before taxes (31,853 x .233)	7,422
Depreciation	3,014
Amortization - Assets Specially Classified	2,001
Amortization - mainline pipe subsequently looped	500
Amortization - rate case expenses	150
Capital cost allowance	(2,227)
Taxable Income	<u>10,860</u>
Federal part 1 income taxes payable at 36%	<u>3,910</u>
Surtax thereon at 5%	<u>196</u>

ORDER NO. TO-6-80

IN THE MATTER OF the National Energy Board Act and the Regulations made thereunder; and

IN THE MATTER OF an application by Trans Mountain Pipe Line Company Ltd. (hereinafter called "the Applicant") for certain Orders respecting tariffs and tolls pursuant to Part IV of the National Energy Board Act, filed with the Board under File No. 1762-T4-2.

B E F O R E the Board on Monday, the 15th day of December, 1980.

UPON an application by Trans Mountain Pipe Line Company Ltd. under section 50 of the National Energy Board Act for an order that the Applicant be at liberty to further amend the schedule of rates and tolls prescribed by the Board in Order No. TO-1-78, dated the 3rd day of January, 1978, as amended by leave of the Board granted on the 31st day of August, 1979, and as set forth in Tariff No. 20, which became effective the 1st day of October, 1979, and in Supplement No. 1 to the said tariff, which became effective the 15th day of October, 1979;

AND UPON a public hearing having been held in the City of Ottawa, in the Province of Ontario, commencing on the 3rd day of November, 1980, at which the Applicant and other interested parties were heard, and at which the Presiding Member, Mr. J.R. Hardie, took evidence and acquired information

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for the purposes of reporting to the Board on the said application, pursuant to subsection 14(1) of the Act;

AND UPON the Presiding Member having made a report to the Board;

AND UPON the Board having received and considered the transcripts of the evidence and argument presented at the hearing and the exhibits filed thereat together with the Presiding Member's report, and, being satisfied that the tolls recommended by the Presiding Member are just and reasonable, has adopted the Presiding Member's report as the statement of its findings and its decision on the said application;

IT IS ORDERED THAT:

1. The Applicant shall, effective the 1st day of January, 1981, charge in respect of the transmission of oil by it on behalf of others, the rates and tolls prescribed in Schedule A hereto.

AND IT IS FURTHER ORDERED THAT:

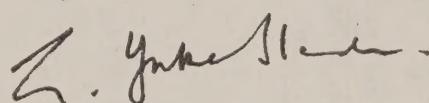
2. The Applicant shall forthwith file with the Board, and serve upon all parties to the hearing and its shippers, a tariff conforming with this Order.

3. Notwithstanding the filing of the said new tariff, the same shall remain suspended and be of no effect until the 1st day of January, 1981.

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4. Those provisions of the Applicant's tariffs, or any portion thereof, that are contrary to any provisions of the National Energy Board Act, or to any order of the Board, including this Order, be and the same are hereby disallowed, such disallowance to be effective on the 31st day of December, 1980.

NATIONAL ENERGY BOARD



G. Yorke Slader
Secretary

SCHEDULE A

TRANS MOUNTAIN PIPE LINE COMPANY LTD.
TOLLS EFFECTIVE 1 JANUARY 1981
IN DOLLARS PER CUBIC METRE

From	To	DENSITY RANGES IN KILOGRAMS PER CUBIC METRE			
		greater than 876	876 to inclusive	AT 15° CELSIUS	779 to inclusive
Edmonton	Burnaby and Port Mann	4.077	3.725	3.410	2.672
Edmonton	Kamloops	2.985	2.733	2.506	1.978
Edmonton	Sumas*	3.888	3.554	3.253	2.552
Edson	Burnaby and Port Mann	3.308	3.027	2.774	2.183
Edson	Kamloops	2.216	2.034	1.871	1.489
Edson	Sumas*	3.116	2.852	2.615	2.061
Kamloops	Burnaby and Port Mann	1.307	1.207	1.118	0.910
Kamloops	Sumas*	1.115	1.033	0.959	0.787

GATHERING CHARGE - Where gathering service is performed by Trans Mountain Pipe Line Company Ltd. into its Edson Station from the Edson Gas Plant a charge of 0.379 dollars per cubic metre will be made in addition to the above tolls.

WESTRIDGE LOADING CHARGE - A loading charge of 0.251 dollars per cubic metre will be made for all petroleum loaded out over the Westridge marine loading wharf.

All tolls and charges are payable in Canadian currency.

* a point on the International Boundary near Sumas, British Columbia, where the pipeline of Trans Mountain Pipe Line Company Ltd. connects with that of Trans Mountain Oil Pipeline Corporation.

